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Report of the Multi-year Expert Meeting on Promoting Economic Integration and Cooperation on its fourth session

Held at the Palais des Nations, Geneva, on 14 and 15 April 2016



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I. Chair's summary

1. The fourth session of the Multi-year Expert Meeting on Promoting Economic Integration and Cooperation was held at the Palais des Nations in Geneva, Switzerland, on 14 and 15 April, according to the terms agreed by the Trade and Development Board at its fifty-seventh executive session on 26–28 June 2013.

A. Opening statement

2. In his opening remarks, the Head of the Economic Cooperation and Integration among Developing Countries Branch, Division on Globalization and Development Strategies, discussed the prospects of different forms of international cooperation to help achieve some of the key objectives of the 2030 Agenda for Sustainable Development within the broader context of a volatile global economy.

3. He said that developing countries faced many challenges to their resilience to external economic shocks in the post-great recession era. South-South cooperation could complement traditional North-South cooperation not only with regard to finance and trade, but also in the coordination of domestic policies for investment and the expansion of infrastructure. Developing countries stood to benefit greatly from best practices in the areas of macroeconomic policies and resilience building when formulating their national policies to scale up sustainable and inclusive growth, and strengthen capacities to manage and withstand economic crises.

4. The speaker stressed the importance of strategic participation in global trade and production networks and of active industrial policy that focused on capital formation, economic diversification, technological upgrading and high-quality employment generation in sparking sustained and inclusive growth and building economic resilience.

B. Improving all forms of cooperation and partnership for trade and development with a view to accomplishing the internationally agreed development goals

(Agenda item 3)

Macroeconomic policy for short-term resilience

5. The first session of the meeting focused on the challenges related to the current macroeconomic scenario and on possible developing countries' responses in different policy areas. According to the panellists, despite the diffuse adoption of unorthodox tools such as quantitative easing and negative interest rates, the monetary policy measures currently deployed by developing economies had proven inadequate to shield them against the fragilities generated by financial instability and did not guarantee sustained economic growth. Growth in the post-great recession era had been generally driven by consumption rather than by investment. Furthermore, given the interconnectedness that characterized today's financial markets, even minor policy changes by leading economies, such as an increase in interest rates in the United States of America, could prove disruptive for developing countries. For example, this could trigger currency depreciations and capital outflows.

6. The panellists, backed by several experts, identified public investment as a promising and effective policy area, since it could be a means of sustaining long-term development while enhancing short-term economic resilience. Furthermore, given the generally low

interest rates, public investment could be a relatively cheap policy option in the current context.

7. Development banks at the national, regional and South-South levels should play a central role as providers of long-term capital for long-term investment. However, it was also important to establish sound taxation policies to sustain public investment; in most developing economies, taxation rates were usually too low and insufficiently progressive. Income and corporate taxes, and the overall collecting revenue capacity of the State, should therefore be given much more attention in order to increase economic resilience.

8. Public investment could be seriously hindered by public debt. Since the global financial crisis of 2008, total debt worldwide had increased sharply, as reflected in the balance sheets of many emerging economies. The total debt of China had nearly quadrupled since 2007, and there had been significant increases in Brazil, South Africa and Turkey. The situation of China was particularly worrisome. Given its economic and financial dimension, any financial instability originated domestically might have significant repercussions on the rest of the world. The capital controls currently in place, however, were proving to be an effective means of preventing overheating and stabilizing the markets.

9. The problem of public debt was not limited to the emerging economies. Many commodity export countries, especially in Africa and Latin America, tended to overborrow to compensate the shortfall in export prices. This added to the debt burden borne by many advanced economies and increased instability at the global level.

10. The panellists noted that in the last decade, partially counterbalancing the debt burden, many developing countries had accumulated large reserves as a form of insurance against financial instability. Those reserves, however, displayed extremely low returns, compared with potential domestic productive investment. Furthermore, since short-term international financial flows had been entering the domestic markets of many emerging and developing countries, even the large existing stockpile of foreign exchange reserves appeared to be increasingly inadequate; the net asset positions of many of these economies were negative. This represented a serious vulnerability since, in case of a sudden and destabilizing capital outflow, large reserves might prove insufficient. The panellists agreed on the need for further research to better understand the implications of capital outflows, especially in a world characterized by low and sometimes negative interest rates in capital-exporting countries.

11. The panellists examined some of the key microeconomic measures that could be undertaken to ensure macroeconomic resilience, with particular attention given to the cases of Bangladesh and Brazil. Active labour market programmes, for example, could provide temporary employment, while building up long-term economic assets, such as infrastructure. To exploit their full potential, however, these programmes should be linked to skills development and training.

Industrial policy for long-term resilience and stability

12. The second session of the meeting was devoted to the risks of premature deindustrialization faced by many developing and emerging economies. It also addressed the importance of industrial policy in coping with these risks and in building long-term economic resilience.

13. The panellists presented recent statistical evidence on industrialization and deindustrialization patterns. They showed that today developing economies deindustrialized at relatively low income levels. Across different developing regions, the shares of manufacturing employment and value added peaked and began to decrease at much lower levels of gross domestic product per capita compared with the past. This phenomenon,

known as premature deindustrialization, was particularly harmful, since developing economies had not yet fully exploited the benefits of manufacturing activities when they started deindustrializing, and their services sector was not ready to act as an alternative engine of growth. There was a correlation between the historical peak of manufacturing employment and subsequent levels of income per capita; countries that achieved a high share of manufacturing employment in the past enjoyed higher incomes today, and vice versa.

14. The panellists suggested that the faster the premature deindustrialization process, the more negative its ramifications for social and political cohesion, with declining health, rising poverty and deteriorating income distribution aggravated by deskilling and unemployment.

15. The panellists discussed the critical role of industrial and productive transformation policies to prevent or mitigate deindustrialization, and to support re-industrialization. These policies should take into account both domestic factors, such as individual countries' political economy and resource endowments, and the new international geography of production, including global value chains, trading blocs and patterns, and changes in the geographical distribution of global production and consumption.

16. The panellists presented the joint work undertaken by UNCTAD and the Development Centre of the Organization for Economic Cooperation and Development in the framework of its policy initiative on global value chains, productive transformation and development. This work aimed to provide a guiding framework for policymakers to identify options and actionable policy responses to promote development through structural transformation, based on a comparative assessment of countries' assets, priorities and upgrading potential.

17. A key objective of this collaborative project was to enhance national capacity to anticipate change. This could be facilitated by consultation and discussion with the private sector. Cooperation with the private sector could also be of critical importance to discuss potential new production activities, that is to say, discovering the potential comparative advantage of an economy in new sectors, and deciding how to support them. Public productivity councils, for example, could help by examining how to devote medium- and long-term resources for embracing new activities and how to prioritize activities within the broader regional trade environment.

18. However, industrial policy alone was not sufficient to address premature industrialization. Macroeconomic and trade policies were also needed as well as effective technology- and labour-enhancing strategies. To this end, understanding how to build and strengthen productive and learning capabilities was of critical importance to bringing about transformations that were realistic and feasible. International property protection, however, as one expert emphasized, could seriously dampen these policy efforts.

19. The panellists and some of the experts addressed the complex interaction between national aspirations and international realities when designing and implementing industrial policies. There was a risk of premature or excessive opening to international trade, particularly with regard to vulnerable economies in early stages of development; merely relying on comparative advantage and specialization might not represent the most effective growth strategy for those economies.

20. Research by Imbs and Wacziarg (2003) indicated that, until relatively late in the process of development, sectoral production and employment became less concentrated and more diversified as income per capita grew. In the initial stages of growth, production upgrading and sophistication went hand in hand with sectoral diversification. However, when a country reached a relatively high level of income, acquiring advanced knowledge of specific productive lines – and therefore specializing – became a necessary condition for sustainable growth. Diversification and specialization should therefore not be seen as

mutually exclusive; rather they should mutually reinforce each other throughout the development process.

21. Finally, several experts described the challenges faced by many developing economies in taking full advantage of participation in global value chains and climbing the technological ladder within international production networks. They discussed the pros and cons of the *maquiladora* model in Mexico to illustrate the critical trade-off between job creation and value addition or diversification. The panellists suggested that there was not just one way of solving this trade-off, nor was there a single strategy that would ensure successful participation in global value chains, since optimal policy decisions critically depended on a variety of country-specific characteristics such as dimension, geographical location and endowments.

International cooperation in light of current economic challenges

22. The main theme of the third session of the meeting was South–South cooperation in light of the aforementioned economic challenges and of the need for short- and long-term resilience. Much of the discussion, both in terms of the panellists’ presentations and experts’ comments, was centred on the important role that UNCTAD could play in strengthening and enhancing the reach and impact of South–South cooperation, particularly in regard to the economic issues and challenges associated with achieving the Sustainable Development Goals, and in serving as a forum for and an institutional representative of Southern economies in global economic management and negotiations.

23. The panellists discussed UNCTAD research concerning current examples of South–South cooperation on regional financial and monetary cooperation as models for others. These models were particularly appealing in light of the Sustainable Development Goals and the need to increase financing for development and industrialization. The panellists and several country experts explored the promise and pitfalls of public–private partnerships. While experience with such partnerships was mixed, development banks – whether they were regional or national – appeared to offer more potential for the developmental, long-term objectives set out in the Sustainable Development Goals. A key challenge, then, was to expand the capacity of development banks to raise funds through taxation.

24. Data was one area where UNCTAD was active in promoting South–South cooperation. For example, UNCTAD was working with the Network of Southern Think Tanks and the United Nations Office for South–South Cooperation, as it had proposed to build a statistical database on South–South collaboration. This would be based on concepts and methodologies that explicitly drew from and were agreed to by the South. More generally, the panellists pointed out the importance of data in setting out and measuring progress in achieving the Sustainable Development Goals; if Southern countries did not take the lead in developing statistics to adequately measure progress on the Goals, existing, largely Northern-led international financial institutions, would do so in their place. Once these definitions were set, it would be difficult to dislodge them, even if they proved to be inadequate. Using gross domestic product alone to measure development was a good example of this problem.

25. The panellists said that the United Nations served as a natural institutional host for South–South cooperation, coordinating normative work aimed at defining and furthering the Sustainable Development Goals. In the current global economic context of declining development aid, new forms of cooperation between BRICS countries¹ and the South were emerging to fill the void to some extent. Southern countries could build on the institutional

¹ Brazil, the Russian Federation, India, China and South Africa.

strengths of the United Nations to collectively guide and share these new forms of cooperation.

26. One of the main issues that arose in the discussion on the role of UNCTAD, largely emanating from the questions of several experts, focused on the challenge of managing financial flows for long-term productive investment. Developing countries faced a fundamental contradiction that was difficult to overcome: on the one hand, they needed external finance for domestic investment; on the other hand, however, it was difficult to guide such investment towards developmental ends once it entered the country. The rise of vulture funds was an extreme example of this problem. This also related to the challenge posed by the middle-income trap, where countries that had achieved middle-income status found it difficult to move to high-income status, partly because of unequal relations with higher-income countries. More mechanisms for economic integration and cooperation among middle- and low-income countries would help, and UNCTAD could play an important role in building up this institutional capacity.

27. Finally, several experts asked how UNCTAD could serve as a forum for discussing how to curb the consequences of financial volatility, manage macroeconomic shocks, and build resilience and strengthen economic cooperation among Southern countries. Part of this crucially involved building on and scaling up existing Southern regional arrangements and forms of economic cooperation. UNCTAD placed its human and technical capabilities at the service of the Group of 77 to establish these and other structures for cooperation, and to strengthen collective capacities to achieve the Sustainable Development Goals.

II. Organizational matters

A. Election of officers

(Agenda item 1)

28. At its opening plenary, on 14 April 2016, the multi-year expert meeting elected Mr. Raphael Hermoso (Philippines) as its Chair and Mr. Lizwi Nkombela (South Africa) as its Vice-Chair-cum-Rapporteur.

B. Adoption of the agenda and organization of work

(Agenda item 2)

29. Also at its opening plenary, the multi-year expert meeting adopted the provisional agenda for the session (TD/B/C.I/MEM.6/10). The agenda was thus as follows:

1. Election of officers
2. Adoption of the agenda and organization of work
3. Improving all forms of cooperation and partnership for trade and development with a view to accomplishing the internationally agreed development goals
4. Adoption of the report of the meeting

C. Outcome of the session

30. At its closing plenary, on 15 April 2016, the multi-year expert meeting agreed that the Chair should summarize the discussions.

D. Adoption of the report of the meeting

(Agenda item 4)

31. At its closing plenary, the multi-year expert meeting authorized the Vice-Chair-cum-Rapporteur, under the authority of the Chair, to finalize the report after the conclusion of the meeting.

Annex

Attendance^{2*}

1. Representatives of the following States members of UNCTAD attended the expert meeting:

Belarus	Madagascar
Cameroon	Mauritania
Central African Republic	Morocco
Chile	Pakistan
China	Philippines
Democratic Republic of the Congo	Poland
Cuba	Saudi Arabia
Côte d'Ivoire	Tunisia
Dominican Republic	Turkey
Ecuador	Uganda
Greece	Ukraine
Indonesia	United Arab Emirates
Iran (Islamic Republic of)	United States
Japan	Zimbabwe
Kenya	

2. The following intergovernmental organizations were represented at the session:

Eurasian Economic Commission
 European Union
 International Organization of la Francophonie
 Organization for Economic Cooperation and Development
 Pacific Islands Forum Secretariat
 South Centre

3. The following specialized agency or related organization was represented at the session:

World Tourism Organization

4. The following non-governmental organization was represented at the session:

General category
 Engineers of the World

* This attendance list contains registered participants. For the list of participants, see TD/B/C.I/MEM.6/INF.4.



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